

MEMORANDUM FOR: Director, Office of Intelligence Research and
Analysis
Department of State

ATTENTION: Mr. John G. Oliver

SUBJECT: Office of Secretary of Defense Suggestion for
Reimposition of Trade Controls

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1. I have discussed with [REDACTED] the following which is in response to your request for an OIR reaction to the memorandum from Acting Secretary of Defense Quarles suggesting that certain multilateral embargoes be reimposed against Communist China.

2. The controls proposed in the OSD memorandum would, we feel, in no way deter the present level of activity in the Taiwan Strait. The disposition of forces in being and of supplies accumulated through earlier Russian shipments of military equipment are more than sufficient to sustain the present or higher level of activity in this area for some time to come.

3. It is of course possible that a high level of Communist Chinese air activity in the Taiwan area might be reduced to some extent in the future by an effective restriction of tanker tonnage available to Communist China. China's present demand for petroleum fuels apparently exceeds the capability for overland supply from the USSR; the bottleneck is principally the Chinese rail system. On the other hand, even if seaborne shipments of PUL are interdicted, a fairly modest reallocation of existing supplies would permit the support of such limited action as that in the Taiwan Straits.

4. Because of limited capability of overland supply, any significant increase in present levels of China's demand for petroleum will require either charter of Western tankers or the employment of Soviet tankers. Even in this case it should be pointed out that the numbers of tankers required would not be great. For example, the

estimated probable movement of 200,000 tons of Soviet petroleum to China by sea in 1958 could have been moved in only four Soviet tankers. Of the total of 98 ships in the Soviet tanker fleet, 40-50 of them are of the type required for such voyages.

5. We think it is important to emphasize that the partial embargo of selected strategic goods could be expected to have no significant impact on Communist Chinese military effectiveness. In a controlled economy the size of Communist China's, particularly when backed by the combined economies of the rest of the Bloc, the inconvenience resulting from selected trade controls such as those proposed could be easily accommodated. The Chinese military build-up depends rather on: (1) Chinese decision to divert domestic economic resources away from other programs to defense, and (2) Russian willingness to augment Chinese resources by unrequited exports of Soviet strategic supplies.

6. The Chinese economy although growing rapidly is still relatively underdeveloped by Western standards. Nevertheless, the rate of accretion to Chinese military strength has been considerable in the past few years and may be expected to grow with increased Chinese industrial growth.

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Acting Assistant Director
Research and Reports

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